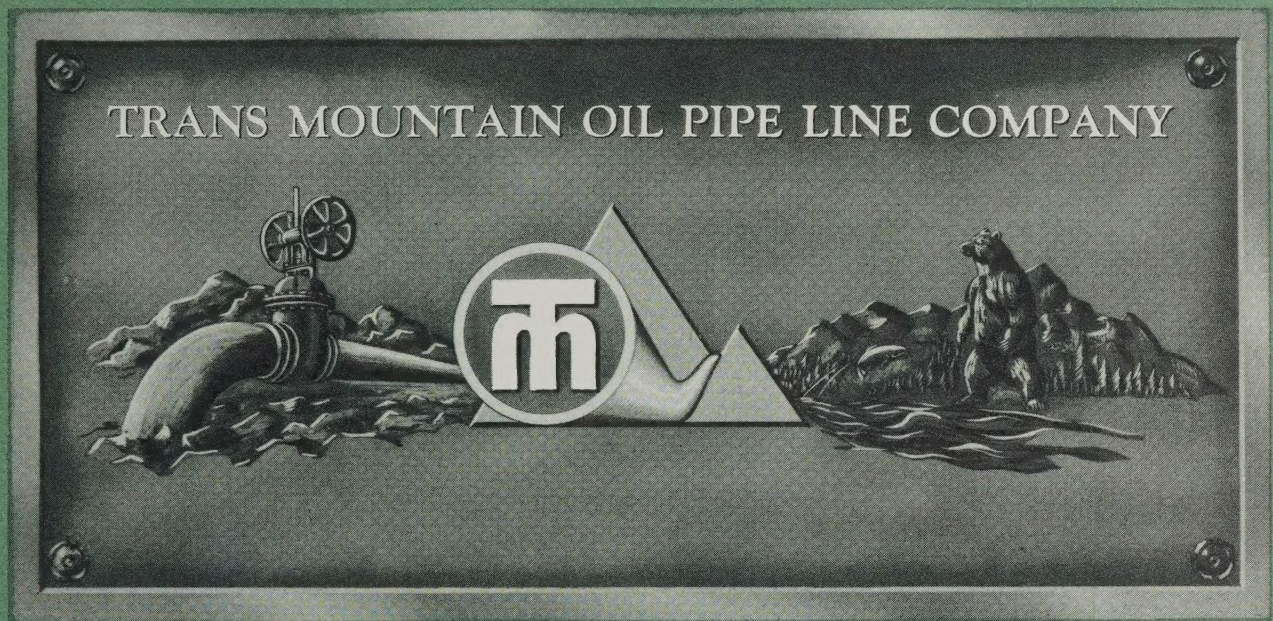



AR09



file

ANNUAL REPORT 1965



Digitized by the Internet Archive
in 2023 with funding from
University of Alberta Library

https://archive.org/details/Tran0443_1965

TRANS MOUNTAIN OIL PIPE LINE COMPANY



FIFTEENTH ANNUAL REPORT 1965

15

DIRECTORS

R. L. Bridges
H. S. Foley
L. D. Fraser
J. W. Gendron
J. W. Hamilton
E. C. Hurd
G. B. McLean
J. W. Morgan
R. P. Ritchie

OFFICERS

E. C. Hurd *President*
R. F. B. Taylor *Vice-President
and Treasurer*
J. H. McQuarrie *Secretary*

HEAD OFFICE

400 East Broadway, Vancouver 10,
British Columbia, Canada

TRANSFER AGENT AND REGISTRAR

National Trust Company, Limited
*Vancouver, Calgary, Edmonton,
Winnipeg, Toronto and Montreal*



REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS:

Total deliveries of petroleum through the system in 1965 of 79,738,381 barrels were 27,264 barrels less than those of 1964. Statistically, because 1964 was a leap year, the daily average of 218,461 barrels in 1965 was 522 barrels per day greater than in 1964. Earnings for the year after income tax show an increase of $\frac{1}{2}$ of 1% over 1964.

FINANCIAL

Earnings for the year after making appropriate provision for income taxes were \$9,326,543 (\$1.24 per share) compared with \$9,282,237 (\$1.23 per share) in 1964. Quarterly dividends of 25 cents per share were paid resulting in a total of \$1.00 per share.

Apart from an increase of 22% in income from investments arising mainly from higher interest rates available during the year, gross income varied little from that of 1964, as might be expected from the very slight difference in oil movements during the years.

Operating expenses have increased 4.5%, partly caused by increases in wages and vacation benefits consistent with the pattern in the industry and partly by increased costs of goods and services purchased.

Taxes, other than income taxes, amounted to \$1,286,222, an increase of 8%, as a result of a combination of higher assessments and mill rates, and increased pipe line taxes in British Columbia because of increased oil movements during 1964.

During the year, mandatory requirements of the sinking fund for the retirement of Trans Mountain bonds payable in United States funds involved an exchange loss of \$365,892 due to the difference of exchange rates at the times of borrowing and repayment. This is an increase of about \$100,000 from the loss incurred in 1964 and was caused by an increase in the number of bonds required to be retired. During the same period, Canadian pay bonds in the amount of \$1,975,000 were purchased voluntarily in the open market for future sinking fund requirements at gains aggregating \$23,146. A net loss of \$342,746 has therefore resulted from the debt retirement. Particulars of the various issues of Trans Mountain bonds are given in the Notes to Financial Statements.



Capital additions to the pipe line system required expenditures of \$1,156,280 and similar requirements for 1966 are estimated at \$4,250,000. These amounts include the costs of a 3" diameter pipe line of about 5 miles built to move condensate from a gas plant to our Edson pump station and the estimated cost of the new facilities being constructed in Vancouver Harbour for the unloading of propane from tank cars, its refrigeration and storage at low temperature and subsequent loading into tankers. The Company has entered into a contract with The British American Oil Company Limited to make these facilities available for a period of ten years commencing in the autumn of 1966.



The Head Office of Trans Mountain is located in Vancouver, British Columbia. This bustling metropolis, Canada's third largest city, has a beautiful landlocked harbour which is the busiest port on the western seaboard of North America.

THROUGHPUT

In 1965 total deliveries of crude oil, including natural gas liquids, were 79,738,381 barrels or an average of

218,461 barrels per day. Average daily deliveries to refineries in the Vancouver area decreased by 2.3% but increased to refineries in Washington by 1.5%. The distribution of these deliveries by destinations and by calendar quarters is shown in the following tables.

DELIVERIES BY DESTINATIONS	1965		1964		1963	
	Barrels per day	%	Barrels per day	%	Barrels per day	%
Vancouver refineries.....	70,645	32.3	72,324	33.2	64,533	33.6
Washington refineries.....	147,816	67.7	145,615	66.8	127,288	66.4
	218,461	100.0	217,939	100.0	191,821	100.0

Natural gas liquids, in the form of condensate and butane, represented approximately 8.5% of the total volume transported. In 1964, these accounted for about 7% of the volume.

DELIVERIES BY CALENDAR QUARTERS	Barrels per day		
	1965	1964	1963
First Quarter.....	227,881	225,967	212,609
Second Quarter.....	213,101	222,444	199,810
Third Quarter.....	230,570	197,607	174,222
Fourth Quarter.....	202,439	225,874	181,180

Estimated deliveries for the first quarter of 1966 are 240,000 barrels daily.

The following table gives a summary of the receipts of petroleum at the various receiving points.

SUMMARY OF OIL RECEIVED	Barrels per day		
	1965	1964	1963
Edmonton.....	174,176	174,649	150,581
Edson.....	16,966	20,374	13,005
Kamloops.....	28,704	23,663	28,739
	219,846	218,686	192,325

The following additional statistics are given for comparative purposes.

	1965	1964	1963
Barrel miles (millions).....	51,346	51,879	44,481
Average length of haul (miles).....	644	650	635

In 1953 Trans Mountain Oil Pipe Line Company started pumping petroleum to the Pacific Coast from its originating terminal located on the east side of the city limits of Edmonton.



It will be recalled that the Company has been under a commitment to reduce the transportation charges on British Columbia petroleum received at Kamloops for movement to Pacific Coast refineries when the annual average daily throughput of such petroleum reached 30,000 barrels. This rate has now been achieved and a reduction in these transportation charges from 22 cents per barrel to 20.1 cents per barrel is being arranged to be effective on April 1. At the same time, the supplementary charge for allowance oil to cover handling and evaporation losses has been reduced on all movements in the system from 1% to $\frac{1}{2}$ of 1%. So far as the movements from Kamloops are concerned, these adjustments satisfy the undertaking given to the Minister of Mines and Petroleum Resources for the Province of British Columbia and reported to the Shareholders in April 1963. The effect of these changes is to reduce the total transportation charges by approximately $3\frac{1}{3}$ cents per barrel on British Columbia petroleum and approximately 1.4 cents per barrel on Alberta oil.

OPERATIONS

The pipe line system operated throughout the year without encountering any unusual problems. The programme of installation of meters at Edmonton terminal commenced in 1962 was completed in 1965 with the result that all incoming streams at Edmonton are now metered, and approximately forty percent of the oil received there enters directly into the pipe line without passing through tankage.

The 3" diameter pipe line referred to earlier has been in satisfactory operation since early December 1965, carrying condensate from the gas plant to our Edson pump station.

Four more sections of the pipe line were tested successfully to higher operating pressures. This further increases the pumping capacity of the present system and postpones the necessity of making major capital expenditures to meet increasing throughput.

GENERAL

On September 30, 1965, Mr. E. S. Davis retired at normal retirement age. Having joined the Company in 1953 as general superintendent of operations, he has been a vice-president since early 1961. The Directors wish to express their appreciation of his outstanding contribution as one of the original management group.

As in the past the Company has again enjoyed the effective cooperation and loyalty of all employees and Management takes this opportunity to express its appreciation to them.

On behalf of the Board of Directors.

A handwritten signature in dark ink, appearing to be "S. C. Hunter", written over a horizontal line.

Vancouver, B.C.
February 22, 1966.

PRESIDENT



In neighbouring Burnaby the western terminal of the pipe line is located half-way up Burnaby Mountain (upper right of photo). Trans Mountain's marine terminal located at Westridge on the Burrard Inlet is being readied to handle shipments of propane to Japan commencing in the fall of 1966.

The 200-acre Burnaby terminal of Trans Mountain has acquired a new neighbour with a large-sized family. It is the Simon Fraser University, perched high atop Burnaby Mountain and boasting one of the most breathtaking views in the world. S.F.U. opened its doors to enrolling students last fall.

The Ioco refinery of Imperial Oil Limited and the Port Moody refinery of The British American Oil Company Limited can be seen in the background of the new university. Both refineries receive petroleum from the Trans Mountain terminal.



STATEMENT OF SOURCE AND DISPOSITION OF WORKING CAPITAL

Year ended December 31

SOURCE:

	1965	1964
Earnings for the year.....	\$ 9,326,543	\$ 9,282,237
Charges for depreciation.....	5,028,570	5,027,798
Provision for income taxes not payable currently.....	—	14,298
Proceeds from sale of fixed assets.....	23,304	90,917
Sale of capital stock.....	—	164,000
	<u>14,378,417</u>	<u>14,579,250</u>

DISPOSITION:

Increase in other assets and deferred charges.....	75,672	60,139
Additions to fixed assets.....	1,156,280	628,869
Application of income tax reductions of prior years.....	44,142	—
Reduction in long term debt —		
Housing mortgages.....	47,646	45,240
Bonds — Face Value, 1965 — \$5,251,000; 1964 — \$2,900,000.....	5,155,694	2,816,667
Dividends paid.....	7,534,640	7,528,640
	<u>14,014,074</u>	<u>11,079,555</u>

INCREASE IN WORKING CAPITAL.....	364,343	3,499,695
WORKING CAPITAL at beginning of year.....	9,957,494	6,457,799
WORKING CAPITAL at end of year.....	<u>\$10,321,837</u>	<u>\$ 9,957,494</u>

STATISTICAL SUMMARY

Year	Plant Investment in Millions of Dollars	Thousand Barrels per day		Millions of Dollars						Cents per Share	
		Pumping Capacity	Average Daily Deliveries	Revenue	Operating Expenses	Interest	Depreci- tion	Income Tax	Net Earnings	Earnings	Dividends
1956	104.7	185	129.1	22.9	3.3	2.9	3.4	6.3	7.0	93	20
1957	137.2	250	154.9	28.7	5.2	4.0	4.0	7.2	8.3	110	40
1958	143.2	250	81.0	13.3	4.2	4.3	5.0	(.1)	(.1)	(2)	none
1959	143.3	250	98.2	15.9	3.7	4.1	5.0	1.5	1.6	22	15
1960	143.3	250	113.1	18.9	3.8	3.9	5.0	2.8	3.4	46	40
1961	143.5	250	156.4	25.4	4.3	3.7	5.0	6.2	6.2	83	80
1962	143.9	250	198.3	29.5	5.0	3.7	5.0	7.9	7.9	106	100
1963	144.8	250	191.8	28.1	5.2	3.7	5.0	7.2	7.0	93	100
1964	145.2	250	217.9	32.6	5.2	3.6	5.0	9.5	9.3	123	100
1965	146.3	250	218.4	32.9	5.5	3.5	5.0	9.6	9.3	124	100



TRANS MOUNTAIN OIL PIPE LINE COMPANY AND

CONSOLIDATED

(with comparable amounts as at December 31 1964)

ASSETS

CURRENT ASSETS:

	1965	1964
Cash.....	\$ 362,723	\$ 566,682
Short term commercial notes and time deposits.....	4,389,773	4,400,000
Government securities at amortized cost (market value — \$9,170,000).....	9,237,646	9,569,009
Accounts receivable.....	2,643,347	3,215,675
Inventories —		
Allowance oil, at market price at point of acceptance.....	474,979	487,255
Supplies, at or below cost.....	709,858	638,650
Prepaid insurance, rentals and taxes.....	231,466	345,250
	<u>18,049,792</u>	<u>19,222,521</u>

OTHER ASSETS AND DEFERRED CHARGES:

Unamortized expense, less premium, on first mortgage bonds.....	24,954	20,470
Deposits, mortgages and other deferred charges.....	478,341	415,687
Deposits with bondholders' trustee.....	145,201	136,667
	<u>648,496</u>	<u>572,824</u>

FIXED ASSETS (see note):

Pipe line system, at cost, including expenditures made for future expansion.....	146,318,761	145,237,814
Less —		
Accumulated depreciation.....	53,767,927	48,791,386
	<u>92,550,834</u>	<u>96,446,428</u>
	<u>\$111,249,122</u>	<u>\$116,241,773</u>

Signed on behalf of the Board:

G. B. McLean, DIRECTOR; E. C. Hurd, DIRECTOR.

SUBSIDIARY COMPANIES

BALANCE SHEET

as at December 31 1965

(stated in Canadian currency)

LIABILITIES

CURRENT LIABILITIES:	1965	1964
Accounts payable.....	\$ 454,763	\$ 186,040
Estimated income taxes payable.....	3,426,927	5,120,421
Accrued interest on long term debt.....	737,164	802,693
Mortgage and sinking fund payments due within one year, less applicable bonds acquired for sinking fund.....	3,109,101	3,155,873
	<u>7,727,955</u>	<u>9,265,027</u>
LONG TERM DEBT:		
(after deducting amounts due within one year):		
First mortgages, housing properties, 5¼%, repayable in equal monthly instalments of principal and interest maturing July 1 1974.....	242,079	289,725
First mortgage and collateral trust sinking fund bonds due April 1 1972 (see note).....	59,853,933	65,009,627
	<u>60,096,012</u>	<u>65,299,352</u>
ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS (see note).....	11,749,106	11,793,248
CAPITAL STOCK AND RETAINED EARNINGS:		
Capital stock —		
Authorized: 25,000,000 shares without nominal or par value		
Issued: 7,534,640 shares.....	15,128,542	15,128,542
Retained earnings (see note).....	16,547,507	14,755,604
	<u>31,676,049</u>	<u>29,884,146</u>
	<u>\$111,249,122</u>	<u>\$116,241,773</u>

The accompanying notes are part of the financial statement.



TRANS MOUNTAIN OIL PIPE LINE COMPANY AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31 1965

(with comparable amounts for the year ended December 31 1964)

(stated in Canadian currency)

	1965	1964
Income:		
Operating revenue.....	\$32,120,471	\$32,003,268
Income from investments.....	727,346	593,161
Sundry income.....	85,781	65,041
	<u>32,933,598</u>	<u>32,661,470</u>
Charges:		
Operating expenses, other than those stated below.....	4,255,584	4,069,211
Taxes, other than income taxes.....	1,286,222	1,186,701
Provision for depreciation.....	5,028,570	5,027,798
Interest on long term debt.....	3,143,933	3,313,410
Loss on retirement of Company bonds.....	342,746	266,113
	<u>14,057,055</u>	<u>13,863,233</u>
Earnings before income taxes.....	18,876,543	18,798,237
Provision for income taxes (see note).....	9,550,000	9,516,000
Earnings for the year.....	<u>\$ 9,326,543</u>	<u>\$ 9,282,237</u>

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

	1965	1964
Retained earnings at beginning of year.....	\$14,755,604	\$13,002,007
Earnings for the year.....	9,326,543	9,282,237
	<u>24,082,147</u>	<u>22,284,244</u>
Cash dividends.....	7,534,640	7,528,640
Retained earnings at end of year (see note).....	<u>\$16,547,507</u>	<u>\$14,755,604</u>

The accompanying notes are part of the financial statement.

NOTES TO FINANCIAL STATEMENT

CONSOLIDATION AND FOREIGN EXCHANGE:

This consolidated financial statement includes the accounts of Trans Mountain Oil Pipe Line Company and its wholly-owned subsidiaries, Trans Mountain Housing Limited and Alpac Construction & Surveys Limited in Canada and Trans Mountain Oil Pipe Line Corporation in the United States.

The accounts of Trans Mountain Oil Pipe Line Corporation, the United States subsidiary company which owns and operates the pipe line in the State of Washington, and United States dollar balances of Trans Mountain Oil Pipe Line Company have been expressed in Canadian dollars on the following bases:

Current assets and liabilities, at the rate of exchange on December 31 1965;

Fixed assets, long term debt and accumulated tax reductions, at historical rates of exchange;

Accumulated depreciation, on the basis of the equivalent Canadian dollar cost of the related fixed assets;

Income and expenses, except depreciation and amortization of expense less premium on first mortgage bonds, at month-end rates of exchange.

FIXED ASSETS:

Fixed assets comprise:

- | | |
|---|---------------------|
| (a) costs of the pipe line system extending from Edmonton, Alta. to Burnaby, B.C., and Ferndale and Anacortes, Wash., less accumulated depreciation of \$52,313,516 | \$87,239,566 |
| (b) expenditures made for indefinite future expansion of the system, less accumulated depreciation of \$1,454,411 | 5,311,268 |
| | <u>\$92,550,834</u> |

Estimated expenditures on fixed assets during 1966 are approximately \$4,250,000, which include the completion of construction of facilities in Vancouver Harbour for the unloading of propane from tank cars, its refrigeration and storage at low temperature and subsequent loading into tankers.

ACCUMULATED TAX REDUCTIONS APPLICABLE TO FUTURE YEARS:

The companies' policy is to claim the maximum depreciation allowances available for income tax purposes, which in past years have been greater than the provisions for depreciation recorded in the accounts. In 1965, however, the depreciation allowances claimable fall below the depreciation provided in the accounts. As a result, the income taxes estimated to be payable for the year exceed the 1965 provision of \$9,550,000 by \$44,142, which excess has been charged against the accumulated tax reductions applicable to future years.

RETAINED EARNINGS:

The Deed of Mortgage and Trust securing the company's first mortgage and collateral trust sinking fund bonds places certain restrictions on the payment of cash dividends. Retained earnings free of these restrictions amounted to approximately \$9,400,000 at December 31 1965. Dividend payments may not reduce consolidated net current assets below \$1,000,000.

REMUNERATION OF DIRECTORS:

The total amount deducted in the consolidated statement of earnings in respect of remuneration and other emoluments of directors, including a salaried director (the president), was \$43,180 for 1965.

NOTES TO FINANCIAL STATEMENT (Continued)

LONG TERM DEBT:

First mortgage and collateral trust sinking fund bonds of \$59,853,933 at December 31 1965 comprise bonds of Trans Mountain Oil Pipe Line Company, authorized with no fixed limitation, issued and outstanding as follows:

All bonds due April 1 1972

	Series A 4½% Canadian Dollars	Series B 4% United States Dollars	Series C 4% United States Dollars	Series D 5½% Canadian Dollars	Series E 5% United States Dollars	
Originally issued.....	\$30,000,000	35,000,000	6,000,000	15,000,000	15,000,000	
Redeemed to December 31 1965.....	11,000,000	11,000,000	1,873,000	3,721,000	3,721,000	
	19,000,000	24,000,000	4,127,000	11,279,000	11,279,000	
Less —						
Bonds acquired for future sinking fund redemptions	2,967,000	—	—	2,536,000	460,000	
Sinking fund payments due within one year.....	—	2,000,000	342,000	—	474,000	
Amounts due after 1966.....	\$16,033,000	22,000,000	3,785,000	8,743,000	10,345,000	
Amounts due after 1966 in terms of Canadian dollars at the rates of exchange prevailing when the debts were incurred —						
Total.....	\$59,853,933	\$16,033,000	21,501,857	3,651,342	8,743,000	9,924,734

Bond sinking fund requirements for the next five years, reduced by bonds acquired as shown above, are as follows:

1966.....	\$ —	2,000,000	342,000	—	474,000
1967.....	1,033,000	2,000,000	342,000	—	934,000
1968.....	2,000,000	2,000,000	342,000	266,000	934,000
1969.....	2,000,000	2,000,000	342,000	934,000	934,000
1970.....	2,500,000	2,500,000	428,000	1,170,000	1,170,000

REPORT OF THE AUDITORS

To the Shareholders,
Trans Mountain Oil Pipe Line Company:

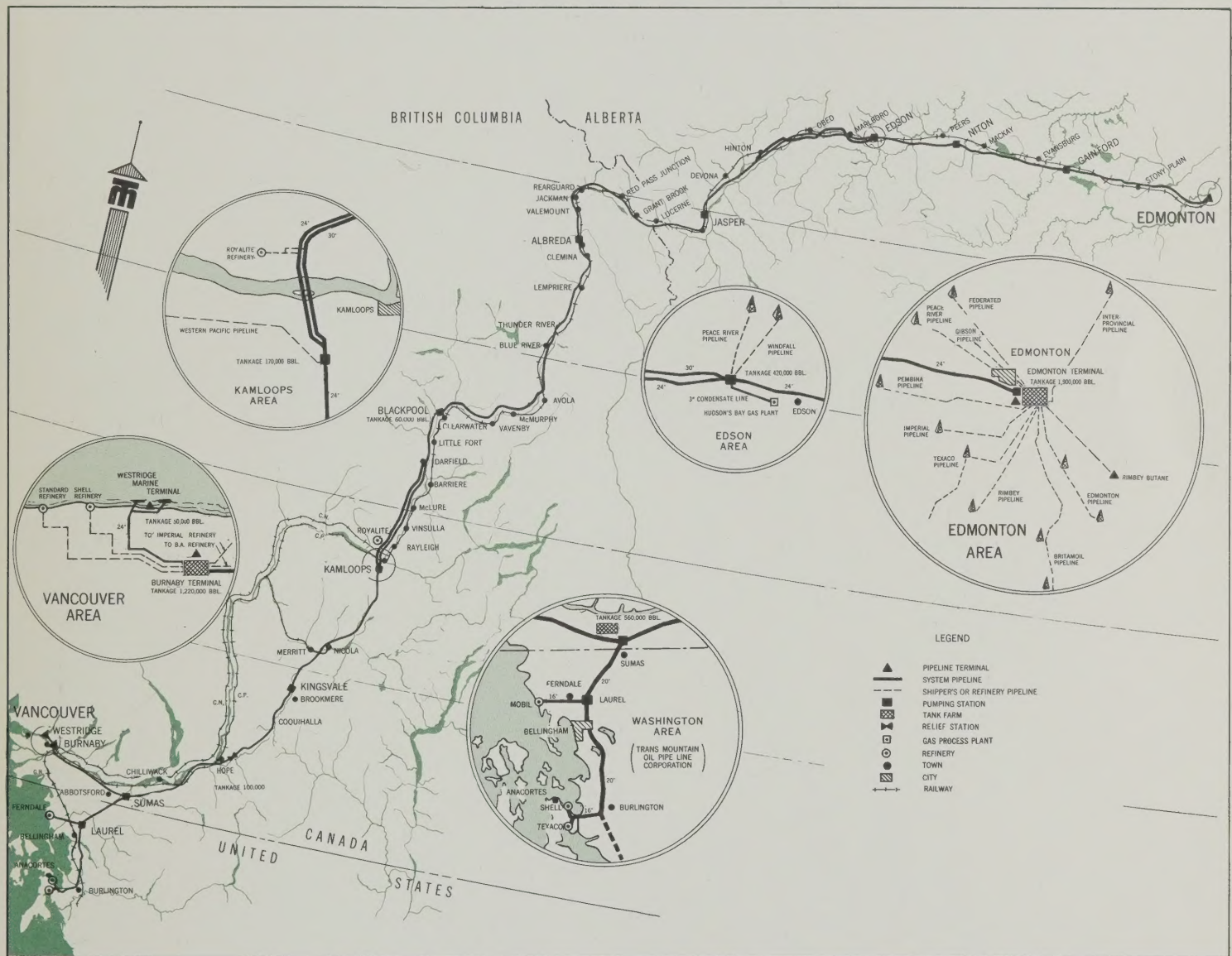
We have examined the consolidated balance sheet of Trans Mountain Oil Pipe Line Company and its subsidiary companies as at December 31 1965 and the consolidated statements of earnings and retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated bal-

ance sheet and statement of earnings and retained earnings present fairly the financial position of the companies as at December 31 1965 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Vancouver, B.C.
February 10 1966.

PRICE WATERHOUSE & CO.
Chartered Accountants.



**TRANS MOUNTAIN
OIL PIPE LINE COMPANY SYSTEM
FEBRUARY, 1966**

